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R 011437Z APR 09
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 3446
INFO RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RHMFIUU/HQ USSOUTHCOM MIAMI FL
RUCNMER/MERCOSUR COLLECTIVE

UNCLAS BUENOS AIRES 000378

SIPDIS
SENSITIVE

DEPT PLEASE PASS TO HUD SECRETARY SHAUN DONOVAN

E.O. 12958: N/A
TAGS: [ECON](#) [EIND](#) [EFIN](#) [PREL](#) [PGOV](#) [AR](#)
SUBJECT: ARGENTINA: HUD SECRETARY DONOVAN DISCUSSES HOUSING SECTOR
WITH PLANNING MINISTER DE VIDO

Summary

¶1. (SBU) HUD Secretary Donovan on March 27 learned about GoA housing initiatives for low- and middle-income families with Planning Minister Julio De Vido. The Minister called access to affordable shelter and the reactivation of the domestic housing construction industry a success of the two Kirchner administrations. A total of 125,000 new units have been constructed since 2003 under a federal housing agency (FONAVI) program funded by gasoline taxes and working through provincial housing institutes. A plan to construct a further 300,000 middle- and low-income homes will be launched by the GoA in 2010. Beyond public housing programs, a lack of long-term mortgage financing remains a constraint on the GoA's desire to encourage additional middle-class home ownership. Federal programs to stimulate the thin domestic mortgage market include a 2008 initiative by the (state-owned) National Bank of Argentina to offer subsidized mortgage credits and an as-yet-unannounced plan to mobilize national pension fund assets via the majority state-owned but privately managed Mortgage Bank (Banco Hipotecario).

¶2. (SBU) Secretary Donovan described current USG public housing policy initiatives, including the use of public/private partnerships to improve project budget efficiencies. He and De Vido agreed on the importance of clear land titles to ensure public housing project success. De Vido reviewed the GoA's "Better Lives" slum rehabilitation program, budgeted at US\$ 320 million, which is concentrated in the greater Buenos Aires metropolitan area and seeks to urbanize/regularize informal slum dwellings without relocating occupants. (Comment: A 2006 World Bank study of Argentina's housing sector criticized GoA public housing efforts as inefficient, with inadequate oversight of provincial authorities that administer programs. The study suggests that Argentina's housing deficit would be more effectively served by moving from direct GoA construction to demand-subsidy programs that leverage the skills and capital of private developers and lenders.) End Summary.

¶3. (SBU) In a March 27 meeting, Secretary of Housing and Urban Development Shaun Donovan reviewed GoA housing initiatives for low- and middle-income families, the general scarcity of mortgage financing, and GoA slum clean-up efforts with Argentine Planning Minister Julio De Vido. The Ambassador, GOA Undersecretary for Urban Development and Housing Luis Alberto Bontempo, and EconCouns (notetaker) also participated.

Argentine Focus on Reviving Housing Sector

¶4. (SBU) De Vido called access to affordable shelter a key Kirchner administration priority. He highlighted successful GoA initiatives

begun in 2003 by then-president Nestor Kirchner (NK) to address substantial housing shortfalls for Argentina's middle-income and poorer classes. Prior to the Kirchners' arrival, he said, the GoA Housing Secretariat "practically didn't exist," with NK immediately pouring some ARP 50 million (roughly US\$ 15 million) into a program to construct 10,000 new low-income housing units. The goal, De Vido said, was to simultaneously tackle a nationwide housing shortage and a post-2001/2 economic crisis unemployment rate topping 25%. Since then, De Vido said, a total of 125,000 new units have been constructed under the "First Federal Housing Plan." A "Second Federal Housing Plan," to be launched in 2010, will target the construction of 300,000 new middle- and low-income homes, he said.

15. (SBU) Both these GoA efforts and an economic recovery which saw GDP growth average 8+% from 2003-2008 contributed to the recovery and boom of Argentina's construction sector. In 2003, De Vido said, only 80,000 workers were employed in Argentina's construction industry. Today, he said, that number has risen to 500,000. Reactivating the national construction and housing industries has helped put post-crisis idle industrial capacity back to productive work and created add-on employment in the white goods sector. (Note: A 2006 World Bank study notes that direct construction expenditure accounted for 11% of Argentine GDP in 2005 and housing for half of that total. When indirect expenditures on building materials and other related sectors are included, the contribution of construction and of housing to GDP doubled to 22%. This spending also generates considerable jobs in both unskilled and skilled employment.)

GoA Public Housing: Partnering with Provinces

16. (SBU) The primary GoA vehicle to support new middle- and low-income public housing construction, U/S Bontempo explained, is federal housing agency FONAVI which channels GoA monies through Provincial Housing Institutes (IPVs). These IPVs typically provide land and then extend credit for the construction and sale of their units from FONAVI resources. An earmarked federal gasoline tax largely funds the FONAVI/IPV system, which Bontempo said was created in 1976. He noted that, when GoA regulations were changed in the 1990s by then-Economy Minister Cavallo to allow provinces more flexibility in the use of FONAVI funds, only three provinces (La Pampa, San Luis and Santa Cruz) chose to continue to dedicate all FONAVI funds to housing sector development. A percentage of all FONAVI-funded public housing is reserved for the handicapped, De Vido noted, and the federal program also leverages the efforts of Argentine NGOs including the Catholic Church's Caritas.

17. (SBU) Creating a viable nationwide housing program, Bontempo explained, required his Under-Secretariat to work closely with a variety of interested actors, including architects, the private construction sector, labor unions, and provincial authorities with narrowly focused priorities. Provincial authorities do all the public housing development project inspections while federal authorities retain overall procurement and audit control. FONAVI-funded middle and low income housing is sold at cost to occupants who then repay the GoA via extended "quotas." Currently, these quota payments are flowed to the federal Social Security entity ANSE to leverage additional public housing funding in what De Vido called a "virtuous cycle" of GoA-supported development.

Financing the Housing Market

18. (SBU) Beyond the FONAVI program, De Vido explained that the GoA is seeking to encourage renters to become homeowners. He lamented that, while Argentina's GDP has grown by over 50% in the six years following the 2001/2 economic crisis, bank lending - and particularly long-term bank lending for mortgages - has not recovered to levels seen in the 1990s. Federal programs to stimulate the thin domestic mortgage market include a 2008 initiative by the (state-owned) National Bank of Argentina to offer subsidized mortgage credits. A follow-on step, he said, will be to involve province-owned banks in this initiative as well as to mobilize national pension fund (ANESSES) assets to boost the domestic mortgage market. (There has been considerable media attention paid

to efforts by the GoA to retake management control of majority GoA-owned Banco Hipotecario as a vehicle to expand mortgage lending in the run-up to 2009 mid-term elections.)

¶9. (SBU) Secretary Donovan asked whether the GoA had experimented with insurance programs to attract additional private capital to the mortgage market. He noted that, in the current challenging market in the U.S., some 95% of mortgages are insured through Fannie Mae, Freddie Mac, or the Federal Housing Authority. De Vido replied that no such programs were available to banks or other private sector lenders in Argentina today.

Public Housing: Fort Apache And Titling Issues

¶10. (SBU) When Bontempo mentioned efforts to improve a dangerous public housing development in greater Buenos Aires nicknamed "Fort Apache" (after the 1981 Paul Newman police thriller set in a Bronx public housing development), Secretary Donovan described public/private partnership initiatives undertaken by the New York City and the federal government to rescue failed housing. Donovan invited Bontempo to visit New York as well as to meet with his counterpart officials in Washington. De Vido encouraged Bontempo to go.

¶11. (SBU) Ambassador noted Peruvian economist Hernando De Soto's pioneering work on the role that clear title to land and tenure security play in consolidating developing market economies and asked how much of a problem this is in Argentina. In response to Donovan's questions on land titling issues in Argentine public housing, Bontempo explained that public housing titles are fully transferred to tenants after only two quota payments. He described uncertain title claims on earlier GoA public housing initiatives, particularly in the province of Buenos Aires (where over one-third of Argentina's 40 million population lives), a contributing factor to the failure of some earlier GoA public housing efforts. However, De Vido said in Fort Apache, people transferred ownership and titles illegally and this contributed to its decline into a notorious drug and crime haven.

¶12. (SBU) Donovan discussed the evolution in U.S. public housing policy solutions along with current efforts to address the shortcomings of earlier urban public housing developments that had become drug and crime havens. Specifically, he noted that direct government construction of housing for the poor had been largely replaced by demand-subsidy programs that use private developers and lenders to build new units for mixed use low- and middle-income households.

"Better Lives" Slum Rehabilitation

¶13. (SBU) In response to the Ambassador's questions about slums rising up on unused urban land, De Vido and Bontempo admitted this was a very big problem. The GoA's "Mejor Vivir" (Better Lives) slum clearance program is now in its second phase, De Vido said, with a budget of US\$ 320 million and \$250 million spent last year. The program is concentrated in the greater Buenos Aires metropolitan area, where it targets an expanding number of "villas miseria" (slums) where poor and rural migrants (including Bolivian and Paraguayan informal immigrants) are concentrated. The GoA's objective is to urbanize/regularize informal slum dwellings without relocating occupants. De Vido noted recent renovation program work inaugurated by President Cristina Fernandez de Kirchner in the notorious "La Cava" slum in the wealthy northern Buenos Aires suburb of San Isidro. Additional projects include efforts to regularize habitation and sewer infrastructure for some 10,000 primarily migrant workers living on the banks of the contaminated Riachuelo River in greater Buenos Aires. De Vido also highlighted the excellent results in the (oil-rich) province of Chubut. De Vido clarified that the Mejor Vivir program is not working in (the opposition-controlled) city of Buenos Aires, even though some of the city's slums (including the notorious Villa 31 near Retiro train station) occupies federally controlled land. He said that differences between the current and previous city governments and

the Federal Government have prevented progress.

Comment: World Bank Critique of GoA Methodology

¶14. (SBU) While De Vido and Bontempo were clearly proud of the GoA's public housing efforts, a 2006 World Bank/IFC review of Argentina's housing sector raises some cautionary flags: it notes that, while the GoA's FONAVI program has provided funding to construct an average of 42,000 units per year over each of the last 15 years, it overwhelmingly produces new units for sale to moderate and middle-income households, rather than offering low-cost housing solutions suited to low-income families. Provincial IPVs neither require that households make a down payment nor that they get market-rate loans, failing to leverage public subsidies with household savings or private-sector credits. Further, the report notes that provincial IPVs have virtually unrestricted control over the use of FONAVI funds, unguided by national policy, program parameters, and performance incentives.

¶15. (SBU) The GoA's FONAVI program targets housing development programs for lower-middle income and the poor via government development, consistent with the Kirchner administration's penchant for direct government economic interventions. In contrast, the World Bank study notes that much of the rest of Latin America has replaced such turnkey government production with demand-subsidy programs that use private developers and lenders to build new units for moderate-income households much more effectively and efficiently. The study suggests that addressing Argentina's housing shortage will require improvements in the nation's financial management of mortgage lending which, in turn, depend more on an appropriate macro-economic policy mix than on housing policy. Embassy contacts in the financial sector agree that a stable and predictable macro-economic policy environment is a prerequisite for the development of a stable private sector long-term deposit base for banks that can provide resources for expanded mortgage financing.

¶16. (SBU) This cable has been cleared by Secretary Donovan.

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